

ALLEN PARISH HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
AND
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
FOR THE YEARS ENDED
JUNE 30, 2011, 2010 AND 2009

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date **JAN 25 2012**



LESTER, MILLER & WELLS
A CORPORATION OF CERTIFIED PUBLIC ACCOUNTANTS

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
d/b/a Allen Parish Hospital
Hospital Enterprise Fund
Years Ended June 30, 2011, 2010 and 2009

Table of Contents

	<u>Page No.</u>
Management's Discussion and Analysis.....	i-vi
Independent Auditors' Report on the Financial Statements	1-2
Financial Statements	
Balance Sheets	3
Statements of Revenue, Expenses and Changes in Net Assets	4
Statements of Cash Flows	5-6
Notes to Financial Statements	7-20
Supplementary Information	
Schedules of Net Patient Service Revenue.....	22
Schedules of Other Operating Revenue.....	23
Schedules of Operating Expenses - Salaries and Benefits.....	24
Schedules of Operating Expenses - Other Expenses.....	25
Schedules of Per Diem and Other Compensation Paid to Board Members	26
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>GOVERNMENT AUDITING STANDARDS</u>	27-32

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
Allen Parish Hospital

Management's Discussion and Analysis

This section of the annual financial report for Hospital Service District No. 3 of Allen Parish, State of Louisiana d/b/a Allen Parish Hospital (the Hospital) provides background information and management's analysis of the Hospital's financial performance during the fiscal years that ended June 30, 2011, 2010, and 2009. Please read it in conjunction with the financial statements beginning on page 3 and notes to the financial statements beginning on page 7 in this report.

Financial Highlights

- The Hospital's total assets decreased by \$309,071 in 2011, compared to an increase of \$11,282 in 2010 and a decrease of \$780,210 in 2009. Cash and cash equivalents increased \$9,180 in 2011. Short-term investments increased by \$829. Capital asset additions for 2011 were \$280,283 and the capital additions were for equipment upgrades.
- The Hospital's total liabilities decreased by \$269,404 in 2011, compared to a \$796,962 and \$141,617 decrease in 2010 and 2009, respectively. The Hospital paid Series 2009 Revenue Anticipation Note in the amount of \$200,000 in 2011.
- Total revenue for the Hospital decreased by \$845,714 in 2011, compared to an increase of \$1,411,863 in 2010 and a decrease of \$234,086 in 2009. Operating expenses increased by \$15,773 in 2011, following a decrease of \$39,586 and an increase of \$154,313 for fiscal years 2010 and 2009, respectively. The Hospital experienced operating income of \$21,060 for fiscal year 2011, compared to operating income of \$882,547 in 2010 and operating losses of \$568,902 in 2009.

Required Financial Statements

The financial statements contained in this report are presented using Governmental Accounting Standards Board (GASB) accounting principles. These financial statements provide overall information about the Hospital's financial activities on both short-term and long-term basis. The balance sheets present information about its assets (resources) and liabilities (the amounts obligated to its creditors). The statements of revenue, expenses, and changes in net assets present information about the current and prior year's activities in revenues and expenses. This statement also provides useful information for determining whether the Hospital's patient service revenue and other revenue sources were sufficient to allow the Hospital to recover all of its costs. The final required financial statement is the statement of cash flows which provides information about the Hospital's cash from operations, investing and financing activities. In addition, this statement provides useful information such as the source of cash flow, cash utilization, and the change in the cash balance during the reporting period.

Financial Analysis of the Hospital

The balance sheet and the statement of revenue, expenses and changes in net assets report information about the Hospital's activities. These two statements report the net assets of the Hospital and changes in them. Increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. However, other financial factors such as changes in the healthcare industry, changes in Medicare and Medicaid regulations, and changes in managed care contracting should also be considered.

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
Allen Parish Hospital

Management's Discussion and Analysis

Net Assets

A summary of the Hospital's Balance Sheets are presented in Table 1 below:

TABLE 1
Condensed Balance Sheets

	<u>2011</u>		<u>2010</u>		<u>2009</u>		<u>2008</u>
Total current assets	\$ 2,242,392	\$	2,457,980	\$	2,294,710	\$	2,795,925
Capital assets, net	1,642,800		1,757,173		1,909,879		2,187,958
Assets whose use is limited	2,786		2,785		2,784		2,781
Other assets	31,120		10,231		9,514		10,433
Total assets	<u>\$ 3,919,098</u>	\$	<u>4,228,169</u>	\$	<u>4,216,887</u>	\$	<u>4,997,097</u>
Total current liabilities	\$ 1,529,268	\$	1,656,300	\$	2,290,537	\$	2,142,637
Long-term debt, net of current maturities	716,483		858,855		1,021,580		1,311,097
Total liabilities	2,245,751		2,515,155		3,312,117		3,453,734
Invested in capital assets, net of related debt	576,356		518,432		549,421		208,896
Restricted net assets	2,786		2,785		2,784		2,781
Unrestricted net assets	1,094,205		1,191,797		352,565		1,331,686
Total liabilities and net assets	<u>\$ 3,919,098</u>	\$	<u>4,228,169</u>	\$	<u>4,216,887</u>	\$	<u>4,997,097</u>

As referenced in Table 1, total assets decreased by \$309,071 in 2011, compared to an increase of \$11,282 in 2010 and a decrease of \$780,210 in 2009. Cash and cash equivalents increased by \$9,180. Short-term investments increased \$829. Capital asset additions in 2011 were \$280,283. Total liabilities decreased \$269,404 in 2011, compared to a decrease of \$796,962 and \$141,617 in 2010 and 2009, respectively. The current ratio for 2011 remained 1.5 from 2010, compared to an increase from 1.00 in 2009.

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
Allen Parish Hospital

Management's Discussion and Analysis

Summary of Revenue, Expenses and Changes in Net Assets

The following table represents the Hospital's Statements of Revenue, Expenses and Changes in Net Assets for the fiscal years ended June 30:

TABLE 2
Condensed Statements of Revenue, Expenses and Changes in Net Assets

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Net patient service revenue	\$ 11,606,773	\$ 12,540,637	\$ 11,138,265	\$ 11,228,208
Maintenance taxes	615,676	618,081	622,111	616,908
Other revenue	<u>187,957</u>	<u>97,402</u>	<u>83,881</u>	<u>233,227</u>
Total operating revenues	<u>12,410,406</u>	<u>13,256,120</u>	<u>11,844,257</u>	<u>12,078,343</u>
Salaries and employee benefits	6,741,492	6,669,591	6,495,555	6,363,387
Supplies and other	2,221,765	2,239,636	2,288,378	2,425,103
Professional, mgt. and consulting fees	2,717,953	2,714,837	2,827,927	2,669,000
Insurance	315,496	339,915	357,365	368,176
Depreciation and amortization	<u>392,640</u>	<u>409,594</u>	<u>443,934</u>	<u>433,180</u>
Total operating expenses	<u>12,389,346</u>	<u>12,373,573</u>	<u>12,413,159</u>	<u>12,258,846</u>
Operating income (loss)	21,060	882,547	(568,902)	(180,503)
Nonoperating income (expenses)	<u>(60,727)</u>	<u>(74,303)</u>	<u>(69,691)</u>	<u>(65,480)</u>
Excess of revenue over expenses	(39,667)	808,244	(638,593)	(245,983)
Net assets - beginning of year	<u>1,713,014</u>	<u>904,770</u>	<u>1,543,363</u>	<u>1,789,346</u>
Net assets - end of year	\$ <u>1,673,347</u>	\$ <u>1,713,014</u>	\$ <u>904,770</u>	\$ <u>1,543,363</u>

Sources of Revenues

Net Patient Service Revenue

During fiscal year 2010-2011, the Hospital derived the majority of its total revenue from patient services. Patient service revenue includes revenue from the Medicare and Medicaid programs and patients, or their third-party payors, who receive care in the Hospital's facilities. Reimbursement for the Medicare and Medicaid programs and the third-party payors is based upon established contracts. Total operating revenues decreased \$845,714 in 2011. The decrease in revenue in 2011 was primarily due to an increase in contractual allowances and provisions for bad debts. During the year, provisions for bad debt increased by \$149,317 versus a decrease of \$530,275 in 2010 and an increase of \$212,179 in 2009. Contractual allowances increased during fiscal year 2011 by \$1,207,603, compared to a \$268,562 increase in 2010 and a \$1,969,085 decrease in 2009.

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
Allen Parish Hospital

Management's Discussion and Analysis

Sources of Revenues (Continued)

Other Revenue

Other revenue includes cafeteria sales, rental income, grant income and other miscellaneous services. The Hospital holds designated and restricted funds in its balance sheets that are invested primarily in certificates of deposit. These investments earned \$1,292 in 2011.

Table 3 presents the relative percentages of gross charges billed for patient services by payor for the fiscal years ended June 30:

TABLE 3
Payor Mix by Percentage

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Medicare	29.8%	29.9%	30.0%	34.2%
Medicaid	35.5%	35.1%	32.5%	35.8%
Commercial	21.1%	22.8%	21.5%	21.2%
Self-pay and other	<u>13.6%</u>	<u>12.2%</u>	<u>16.0%</u>	<u>8.8%</u>
Total patient revenue	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Operating and Financial Performance

The following summarizes the Hospital's Statements of Revenue, Expenses and Changes in Net Assets between 2011, 2010 and 2009.

Patient discharges in 2011 decreased in acute by 88 and by 7 in skilled from 2010. There was an increase of 77 in recovery unit (psychiatric) discharges in 2011. Observation acute short stays increased by 45 in 2011 from 2010. Patient days increased .3% to 9,726 from 9,697 with an increase in patient average length of stay in 2010. The average length of stay for acute patients increased during the past year to 3.09 days, compared to 3.02 days in 2010 and 2.47 in 2009. The average length of stay for skilled care patients increased to 17.4 in 2011 from 13.9 days in 2010 and 12.2 days in 2009. Length of stay for psychiatric care during 2011 was 9.4 compared to 10.1 days in 2010 and 8.7 days in 2009. Total net patient service revenue decreased by \$933,864 or 7.4% in 2011, as compared to an increase of \$1,402,372 in 2010 and a decrease of \$89,943 in 2009.

Net days in accounts receivable dropped to 45.1 days in 2011 compared to 47.9 days in 2010 and 53.6 days in 2009.

Employee related expenses increased 1.1% in 2011. The increased cost of providing benefits such as health insurance, coupled with the increased cost of recruiting and retaining staff are the causes of the continued rise in employee related expenses. As a percentage of net patient service revenue, these expenses are 58.1%, 53.2%, 58.3% in 2011, 2010, and 2009, respectively.

**Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
Allen Parish Hospital**

Management's Discussion and Analysis

Operating and Financial Performance (Continued)

Supplies and other expenses decreased by \$17,871 in 2011 compared to a \$48,742 decrease in 2010 and a decrease of \$136,725 in 2009. Supplies and other expenses change with the volume of patient services. The Hospital focuses on appropriately managing supply contracts to improve in supply cost management.

Professional, management and consulting fees increased in 2011 by \$3,116 compared to a decrease of \$113,090 and an increase of \$158,927 for 2010 and 2009, respectively. Contract nursing staffing was reduced in 2011 33% or \$9,065.

Insurance expense decreased by \$24,419 compared to a decrease of \$17,450 in 2010 and a decrease of \$10,811 in 2009.

Depreciation and amortization expense decreased \$16,954 in 2011 compared to a decrease of \$34,340 and an increase of \$10,754 in 2010 and 2009, respectively.

Interest expense decreased \$14,035 or 18.3% in 2011 compared to an increase of \$1,918 or 2.6% in 2010 and a decrease of \$16,069 or 17.7% in 2009. The fluctuations in interest expense over the last three years are directly related to the financing activity by the Hospital within the respective fiscal year.

Maintenance tax income decreased \$2,405 or .4% in 2011, compared to a decrease of \$4,030 or .6% and an increase of \$5,203 or .8% in 2010 and 2009, respectively.

Other operating revenue increased \$90,555 in 2011, compared to an increase of \$13,521 in fiscal year 2010, and a decrease of \$149,346 in fiscal year 2009.

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
Allen Parish Hospital

Management's Discussion and Analysis

Capital Assets

The Hospital's capital assets activities are included in Table 4 below:

TABLE 4
Capital Assets

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Land and land improvements	\$ 124,480	\$ 124,480	\$ 124,480	\$ 123,830
Buildings	1,979,042	1,979,042	1,979,042	1,965,581
Fixed equipment	277,266	254,266	254,266	254,266
Major movable equipment	<u>3,959,676</u>	<u>3,890,875</u>	<u>3,694,652</u>	<u>3,573,486</u>
Totals at historical cost	6,340,464	6,248,663	6,052,440	5,917,163
Less accumulated depreciation and amortization	<u>4,697,664</u>	<u>4,491,490</u>	<u>4,142,561</u>	<u>3,729,205</u>
Net capital assets	\$ <u>1,642,800</u>	\$ <u>1,757,173</u>	\$ <u>1,909,879</u>	\$ <u>2,187,958</u>

Major movable equipment additions in the amount of \$257,283 were for replacement equipment or equipment upgrades in 2011. The Hospital declared surplus and disposed of several items with a total of \$188,482.

Long-Term Debt

At year-end, the Hospital had \$1,066,444 in debt compared to \$1,238,741 on June 30, 2010 and \$1,816,584 on June 30, 2009. More detailed information about the Hospital's long-term liabilities is presented in the notes to financial statements.

Contacting the Hospital's Financial Manager

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Hospital administration.



LESTER, MILLER & WELLS

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Hospital Service District No. 3
Parish of Allen, State of Louisiana
Kinder, Louisiana

We have audited the accompanying financial statements of Hospital Service District No. 3, Parish of Allen, State of Louisiana, Allen Parish Hospital (the Hospital), a component unit of the Allen Parish Police Jury, as of and for the years ended June 30, 2011, 2010 and 2009, as listed in the foregoing table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hospital Service District No. 3, Parish of Allen, Allen Parish Hospital as of June 30, 2011, 2010 and 2009, and the respective changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 9, 2011, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in assessing the results of our audit.

Board of Commissioners
Hospital Service District No. 3
Parish of Allen, State of Louisiana
Kinder, Louisiana
Page Two

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis pages i through vi be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements.

Lester, Miller & Wells

Certified Public Accountants

Alexandria, Louisiana
December 9, 2011



Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
d/b/a Allen Parish Hospital
Hospital Enterprise Fund
Balance Sheets
June 30,

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Assets			
Current assets:			
Cash and cash equivalents	\$ 320,269	\$ 311,089	\$ 96,033
Short-term investments (Note 3)	166,340	165,511	219,796
Patient accounts receivable, net of estimated uncollectibles (Note 4)	1,435,139	1,647,990	1,636,963
Inventory	250,427	255,108	265,977
Prepaid expenses	<u>70,217</u>	<u>78,282</u>	<u>75,941</u>
 Total current assets	 <u>2,242,392</u>	 <u>2,457,980</u>	 <u>2,294,710</u>
 Capital assets, net (Note 5)	 1,642,800	 1,757,173	 1,909,879
Assets whose use is limited (Note 6)	2,786	2,785	2,784
Other assets	<u>31,120</u>	<u>10,231</u>	<u>9,514</u>
 Total assets	 <u>\$ 3,919,098</u>	 <u>\$ 4,228,169</u>	 <u>\$ 4,216,887</u>
 Liabilities and Net Assets			
Current liabilities:			
Accounts payable	\$ 481,722	\$ 497,048	\$ 640,894
Accrued expenses (Note 7)	371,497	402,861	340,136
Estimated Medicare and Medicaid program settlements	326,088	376,505	514,503
Current maturities of long-term debt (Note 8)	<u>349,961</u>	<u>379,886</u>	<u>795,004</u>
 Total current liabilities	 <u>1,529,268</u>	 <u>1,656,300</u>	 <u>2,290,537</u>
 Long-term debt, net of current maturities (Note 8)	 <u>716,483</u>	 <u>858,855</u>	 <u>1,021,580</u>
 Total liabilities	 <u>2,245,751</u>	 <u>2,515,155</u>	 <u>3,312,117</u>
 Net assets:			
Invested in capital assets, net of related debt	576,356	518,432	549,421
Restricted net assets	2,786	2,785	2,784
Unrestricted net assets	<u>1,094,205</u>	<u>1,191,797</u>	<u>352,565</u>
 Total net assets	 <u>1,673,347</u>	 <u>1,713,014</u>	 <u>904,770</u>
 Total liabilities and net assets	 <u>\$ 3,919,098</u>	 <u>\$ 4,228,169</u>	 <u>\$ 4,216,887</u>

See accompanying notes to financial statements.

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
d/b/a Allen Parish Hospital
Hospital Enterprise Fund
Statements of Revenue, Expenses and Changes in Net Assets
Years Ended June 30,

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating revenues:			
Net patient service revenue	\$ 11,606,773	\$ 12,540,637	\$ 11,138,265
Grant income	96,855	-0-	20,281
Maintenance taxes	615,676	618,081	622,111
Other	<u>91,102</u>	<u>97,402</u>	<u>63,600</u>
Total operating revenues	<u>12,410,406</u>	<u>13,256,120</u>	<u>11,844,257</u>
Operating expenses:			
Salaries and benefits	6,741,492	6,669,591	6,495,555
Medical supplies and drugs	871,143	905,402	902,315
Supplies	531,565	521,567	557,671
Professional, management and consulting fees	2,717,953	2,714,837	2,827,927
Other expenses	819,057	812,667	828,392
Insurance	315,496	339,915	357,365
Depreciation and amortization	<u>392,640</u>	<u>409,594</u>	<u>443,934</u>
Total operating expenses	<u>12,389,346</u>	<u>12,373,573</u>	<u>12,413,159</u>
Operating income (loss)	21,060	882,547	(568,902)
Nonoperating revenues (expenses):			
Interest income	1,292	2,351	5,045
Interest expense	(62,619)	(76,654)	(74,736)
Gain (loss) on disposal of asset	<u>600</u>	<u>-0-</u>	<u>-0-</u>
Excess of revenue over expenses	(39,667)	808,244	(638,593)
Net assets beginning of year	<u>1,713,014</u>	<u>904,770</u>	<u>1,543,363</u>
Net assets end of year	\$ <u>1,673,347</u>	\$ <u>1,713,014</u>	\$ <u>904,770</u>

See accompanying notes to financial statements.

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
d/b/a Allen Parish Hospital
Hospital Enterprise Fund
Statements of Cash Flows
Years Ended June 30,

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:			
Cash received from patients and third-party payors	\$ 11,769,207	\$ 12,391,612	\$ 11,293,036
Other operating cash receipts	803,633	715,483	705,992
Cash paid to suppliers	(5,257,794)	(5,429,706)	(5,302,118)
Cash paid to employees and for employee benefits	<u>(6,772,856)</u>	<u>(6,606,866)</u>	<u>(6,459,072)</u>
Net cash provided (used) by operating activities	<u>542,190</u>	<u>1,070,523</u>	<u>237,838</u>
Cash flows from investing activities:			
Interest on investments	1,292	2,351	5,045
Other assets	(20,889)	(6,782)	(9,899)
Cash invested in certificates of deposit	<u>(829)</u>	<u>54,285</u>	<u>(4,546)</u>
Net cash provided (used) by investing activities	<u>(20,426)</u>	<u>49,854</u>	<u>(9,400)</u>
Cash flows from noncapital financing activities:			
Principal payments on short-term debt	(200,000)	(637,273)	(620,276)
Proceeds from short-term debt	<u>200,000</u>	<u>-0-</u>	<u>756,126</u>
Net cash provided (used) by noncapital financing activities	<u>-0-</u>	<u>(637,273)</u>	<u>135,850</u>
Cash flows from capital and related financing activities:			
Principal payments on long-term debt	(386,615)	(167,568)	(343,733)
Interest expense on long-term debt	(62,619)	(76,654)	(74,736)
Assets whose use is limited	(1)	(1)	(3)
Cash proceeds from sale of assets	600	-0-	-0-
Acquisition of capital assets	<u>(63,949)</u>	<u>(23,825)</u>	<u>(109,634)</u>
Net cash provided (used) by capital and related financing activities	<u>(512,584)</u>	<u>(268,048)</u>	<u>(528,106)</u>
Net increase (decrease) in cash and cash equivalents	9,180	215,056	(163,818)
Cash and cash equivalents, beginning of year	<u>311,089</u>	<u>96,033</u>	<u>259,851</u>
Cash and cash equivalents, end of year	\$ <u>320,269</u>	\$ <u>311,089</u>	\$ <u>96,033</u>

See accompanying notes to financial statements.

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
d/b/a Allen Parish Hospital
Hospital Enterprise Fund
Statements of Cash Flows (Continued)
Years Ended June 30,

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Reconciliation of income from operations to net cash provided by operating activities:			
Operating income (loss)	\$ 21,060	\$ 882,547	\$ (568,902)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	392,640	409,594	443,934
Changes in:			
Patient accounts receivable	212,851	(11,027)	308,717
Estimated Medicare and Medicaid program settlements	(50,417)	(137,998)	(153,946)
Inventory	4,681	10,869	30,123
Prepaid expenses	8,065	(2,341)	3,102
Accounts payable	(15,326)	(143,846)	138,327
Accrued expenses	<u>(31,364)</u>	<u>62,725</u>	<u>36,483</u>
Net cash provided (used) by operating activities	\$ <u>542,190</u>	\$ <u>1,070,523</u>	\$ <u>237,838</u>
Supplemental disclosures of cash flow information:			
Cash paid during the period for interest	\$ <u>64,886</u>	\$ <u>76,654</u>	\$ <u>74,736</u>
Equipment acquired under capital lease	\$ <u>214,318</u>	\$ <u>226,998</u>	\$ <u>45,403</u>

See accompanying notes to financial statements.

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
d/b/a Allen Parish Hospital
Hospital Enterprise Fund
Notes to Financial Statements
Years Ended June 30, 2011, 2010 and 2009

NOTE 1 - ORGANIZATION AND OPERATIONS

Legal Organization

The Allen Parish Hospital Service District No. 3 (the "Hospital" or the "District") was created by an ordinance of the Allen Parish Police Jury.

The Hospital is a political subdivision of the Allen Parish Police Jury whose jurors are elected officials. The Hospital's commissioners are appointed by the Allen Parish Police Jury. As the governing authority of the Parish, for reporting purposes, the Allen Parish Police Jury is the financial reporting entity for the Hospital. Accordingly, the Hospital was determined to be a component unit of the Allen Parish Police Jury based on Statement No. 14 of the National Committee on Governmental Accounting. The accompanying financial statements present information only on the funds maintained by the governmental services provided by that governmental unit or the other governmental units that comprise the financial reporting entity.

Nature of Business

The District provides acute and psychiatric inpatient services, skilled nursing (through "swing-beds"), emergency, home health, and outpatient services, including a rural health clinic and a private physician clinic.

Hospital Land

The land on which the Hospital was built was donated by Powell Lumber Company to Allen Parish Hospital Service District No. 3. The donation was made with the restriction that the land is to be used primarily as a site for a public hospital and should the donee or their successors or assignees fail to use the land for a public hospital, the title shall revert to Powell Lumber Company.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Enterprise Fund

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Basis of Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements. Such accounting and reporting procedures conform to the requirements of Louisiana Revised Statute 24:514 and to the guide set forth in the Louisiana Governmental Audit Guide, and to the AICPA, Audit and Accounting Guide - Health Care Organizations, published by the American Institute of Certified Public Accountants.

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
d/b/a Allen Parish Hospital
Hospital Enterprise Fund
Notes to Financial Statements
Years Ended June 30, 2011, 2010 and 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of deposits in checking, money market accounts and certificates of deposit with original maturities of 90 days or less. Certificates of deposit with original maturities of more than 90 days are classified as short-term investments. Cash and cash equivalents and short-term investments are stated at cost, which approximates market value. The caption "cash and cash equivalents" does not include amounts whose use is limited or temporary cash investments.

Credit Risk

The District provides medical care primarily to Allen Parish residents and grants credit to patients substantially all of whom are local residents. The Hospital's estimate of collectibility is based on evaluation of historical collections compared to gross charges and an analysis of aged accounts receivable to establish an allowance for uncollectible accounts.

Significant Concentration of Economic Dependence

The Hospital has an economic dependence on a small number of staff physicians who admit over 90% of the Hospital's patients. The Hospital also has an economic dependence on Medicare and Medicaid as sources of payments as shown in the table in Note 10. Changes in federal or state legislation or interpretations of rules have a significant impact on the Hospital.

Net Patient Service Revenue

The Hospital has entered into agreements with third-party payors, including government programs, health insurance companies, and managed care health plans, under which the Hospital is paid based upon established charges, the cost of providing services, predetermined rates per diagnosis, fixed per diem rates, or discounts from established charges.

Revenues are recorded at estimated amounts due from patients and third-party payors for the hospital services provided. Settlements under reimbursement agreements with third-party payors are estimated and recorded in the period the related services are rendered and are adjusted in future periods as final settlements are determined.

Inventory

Inventories are stated at the lower of cost, determined by the first-in, first-out method, or market basis.

Income Taxes

The entity is a political subdivision and exempt from taxation.

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
d/b/a Allen Parish Hospital
Hospital Enterprise Fund
Notes to Financial Statements
Years Ended June 30, 2011, 2010 and 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets are recorded at cost for purchased assets or at fair market value on the date of any donation. The Hospital uses straight-line depreciation for financial reporting and third-party reimbursement. The following estimated useful lives are generally used.

Buildings	12 to 40 years
Machinery and Equipment	3 to 20 years
Furniture and Fixtures	3 to 20 years

Expenditures for additions, major renewals and betterments are capitalized and expenditures for maintenance and repairs are charged to operations as incurred. The cost of assets retired or otherwise disposed of and related accumulated depreciation are eliminated from the accounts in the year of disposal. Gains or losses resulting from property disposals are currently credited or charged to nonoperating revenue.

Net Assets

Net assets of the District are classified in four components. Net assets invested in capital assets, net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the District. Restricted non expendable net assets equal the principal portion of permanent endowments. The District has no restricted expendable net assets at this time. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

Revenue and Expenses

The Hospital's statements of revenues, expenses and changes in net assets distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Hospital's principal activity. Operating revenue also includes sales taxes passed to provide the District with revenue to operate and maintain the District. Nonexchange revenues are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Grants and Contributions

From time to time, the District receives grants and contributions from the State of Louisiana, individuals or private and public organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as operating revenues. Amounts restricted to capital acquisitions are reported after non operating revenues and expenses.

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
d/b/a Allen Parish Hospital
Hospital Enterprise Fund
Notes to Financial Statements
Years Ended June 30, 2011, 2010 and 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to the current year classification.

Compensated Absences

Employees of the Hospital are entitled to paid time off and sick days depending on length of service. Employees may accumulate paid time off and sick leave up to a specified maximum depending on years of service. The Hospital charged operations for accrued paid time off and vested sick pay of \$185,915, \$203,544 and \$175,903 in 2011, 2010 and 2009, respectively. It is impracticable to estimate the amount of compensation for future unvested sick pay and, accordingly, no liability has been recorded in the accompanying financial statements. The Hospital's policy is to recognize the cost of unvested sick pay when actually paid to employees.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health and dental benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

NOTE 3 - DEPOSITS AND INVESTMENTS

As of June 30, 2011, the balances reported by financial institutions for cash totaled \$602,626. Of the total, \$416,340 was covered by federal depository insurance and \$186,286 was collateralized with securities held by the pledging bank in the District's name.

As of June 30, 2010, the balances reported by financial institutions for cash totaled \$630,463. Of the total, \$415,511 was covered by federal depository insurance and \$214,952 was collateralized with securities held by the pledging bank in the District's name.

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
d/b/a Allen Parish Hospital
Hospital Enterprise Fund
Notes to Financial Statements
Years Ended June 30, 2011, 2010 and 2009

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

As of June 30, 2009, the balances reported by financial institutions for cash totaled \$358,355. Of the total, \$358,355 was covered by federal depository insurance.

Investing is performed in accordance with investment policies complying with state statutes. Funds may be invested in direct obligations of the United States Government and its agencies pledged by its full faith and credit, certificates of deposit and savings accounts which are secured by FDIC or pledge of securities, and government backed mutual or trust funds.

Custodial Credit Risk - Custodial credit risk for deposits is the risk that in the event of bank failure, the Hospital's deposits may not be returned to it. Louisiana state statutes require that all of the deposits of the Hospital be protected by insurance or collateral. The fair value of the collateral pledged must equal 100% of the deposits not covered by insurance. The Hospital's deposits were entirely insured or entirely collateralized by securities held by the pledged bank's trust department in the Hospital's name at June 30, 2011, 2010, and 2009.

Interest Rate Risk - Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater is the sensitivity of its fair value to changes in the market interest rates. The Hospital does not have an investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

The carrying amounts of deposits and investments are included in the Hospital's balance sheets as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Carrying amount			
Deposits	\$ 323,055	\$ 313,874	\$ 98,817
Investments	<u>166,340</u>	<u>165,511</u>	<u>219,796</u>
	\$ <u>489,395</u>	\$ <u>479,385</u>	\$ <u>318,613</u>
Included in the following balance sheet captions			
Cash and cash equivalents	\$ 323,055	\$ 313,874	\$ 98,817
Short-term investments	<u>166,340</u>	<u>165,511</u>	<u>219,796</u>
	\$ <u>489,395</u>	\$ <u>479,385</u>	\$ <u>318,613</u>

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
d/b/a Allen Parish Hospital
Hospital Enterprise Fund
Notes to Financial Statements
Years Ended June 30, 2011, 2010 and 2009

NOTE 4 - ACCOUNTS RECEIVABLE

A summary of accounts receivable is presented below:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Patients	\$ 3,446,562	\$ 3,493,828	\$ 3,479,589
Other	<u>-0-</u>	<u>229</u>	<u>374</u>
Total	3,446,562	3,494,057	3,479,963
Estimated allowances for uncollectibles	<u>(2,011,423)</u>	<u>(1,846,067)</u>	<u>(1,843,000)</u>
Net accounts receivable	\$ <u>1,435,139</u>	\$ <u>1,647,990</u>	\$ <u>1,636,963</u>

The following is a summary of the mix of receivables from patients and third-party payors at June 30:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Medicare	17%	17%	13%
Medicaid	14%	16%	16%
Commercial and other third-party payors	27%	30%	26%
Self pay	<u>42%</u>	<u>37%</u>	<u>45%</u>
	<u>100%</u>	<u>100%</u>	<u>100%</u>

NOTE 5 - CAPITAL ASSETS

The following is a summary of capital assets and related accumulated depreciation at June 30:

	<u>June 30, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2011</u>
Land	\$ 19,550	\$ -0-	\$ -0-	\$ 19,550
Land improvements	104,930	-0-	-0-	104,930
Buildings	1,979,042	-0-	-0-	1,979,042
Fixed equipment	254,266	23,000	-0-	277,266
Major movable equipment	3,861,249	257,283	188,482	3,930,050
Leasehold improvements	<u>29,626</u>	<u>-0-</u>	<u>-0-</u>	<u>29,626</u>
Totals at historical cost	6,248,663	280,283	188,482	6,340,464
Accumulated depreciation	<u>4,491,490</u>	<u>394,656</u>	<u>188,482</u>	<u>4,697,664</u>
Net	\$ <u>1,757,173</u>	\$ <u>(114,373)</u>	\$ <u>-0-</u>	\$ <u>1,642,800</u>

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
d/b/a Allen Parish Hospital
Hospital Enterprise Fund
Notes to Financial Statements
Years Ended June 30, 2011, 2010 and 2009

NOTE 5 - CAPITAL ASSETS (Continued)

	<u>June 30, 2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2010</u>
Land	\$ 19,550	\$ -0-	\$ -0-	\$ 19,550
Land improvements	104,930	-0-	-0-	104,930
Buildings	1,979,042	-0-	-0-	1,979,042
Fixed equipment	254,266	-0-	-0-	254,266
Major movable equipment	3,665,026	250,823	54,600	3,861,249
Leasehold improvements	<u>29,626</u>	<u>-0-</u>	<u>-0-</u>	<u>29,626</u>
Totals at historical cost	6,052,440	250,823	54,600	6,248,663
Accumulated depreciation	<u>4,142,561</u>	<u>403,529</u>	<u>54,600</u>	<u>4,491,490</u>
Net	\$ <u>1,909,879</u>	\$ <u>(152,706)</u>	\$ <u>-0-</u>	\$ <u>1,757,173</u>
	<u>June 30, 2008</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2009</u>
Land	\$ 19,550	\$ -0-	\$ -0-	\$ 19,550
Land improvements	104,280	650	-0-	104,930
Buildings	1,965,581	13,461	-0-	1,979,042
Fixed equipment	254,266	-0-	-0-	254,266
Major movable equipment	3,543,860	150,082	28,916	3,665,026
Leasehold improvements	<u>29,626</u>	<u>-0-</u>	<u>-0-</u>	<u>29,626</u>
Totals at historical cost	5,917,163	164,193	28,916	6,052,440
Accumulated depreciation	<u>3,729,205</u>	<u>433,115</u>	<u>19,759</u>	<u>4,142,561</u>
Net	\$ <u>2,187,958</u>	\$ <u>(268,922)</u>	\$ <u>9,157</u>	\$ <u>1,909,879</u>

A summary of assets held under capital leases, which are included in capital assets, at June 30 follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Equipment	\$ 1,427,954	\$ 1,267,516	\$ 1,090,696
Accumulated depreciation	<u>905,169</u>	<u>776,476</u>	<u>661,542</u>
Total	\$ <u>522,785</u>	\$ <u>491,040</u>	\$ <u>429,154</u>

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
d/b/a Allen Parish Hospital
Hospital Enterprise Fund
Notes to Financial Statements
Years Ended June 30, 2011, 2010 and 2009

NOTE 6 - ASSETS WHOSE USE IS LIMITED

The following assets are restricted as to use as designated below:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Restricted by third parties:			
Series 2003 proceeds to be disbursed	\$ <u>2,786</u>	\$ <u>2,785</u>	\$ <u>2,784</u>

NOTE 7 - ACCRUED EXPENSES

A summary of accrued expenses follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Salaries	\$ 333,127	\$ 352,961	\$ 282,328
Payroll taxes	9,498	8,878	6,902
Other	<u>28,872</u>	<u>41,022</u>	<u>50,906</u>
Total	\$ <u>371,497</u>	\$ <u>402,861</u>	\$ <u>340,136</u>

NOTE 8 - LONG-TERM DEBT

A summary of long-term debt, including capital lease obligations, at June 30 follows:

	June 30, <u>2010</u>	<u>Additions</u>	<u>Payments</u>	June 30, <u>2011</u>	Due Within <u>One Year</u>
Series 2010 anticipation note	\$ -0-	\$ 200,000	\$ 200,000	\$ -0-	\$ -0-
Series 2007 bonds	268,000	-0-	16,000	252,000	17,000
Series 2003 bonds	515,000	-0-	165,000	350,000	170,000
Note payable - unsecured	15,023	-0-	10,099	4,924	4,924
Capital lease obligations	<u>440,718</u>	<u>214,318</u>	<u>195,516</u>	<u>459,520</u>	<u>158,037</u>
Total	\$ <u>1,238,741</u>	\$ <u>414,318</u>	\$ <u>586,615</u>	\$ <u>1,066,444</u>	\$ <u>349,961</u>

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
d/b/a Allen Parish Hospital
Hospital Enterprise Fund
Notes to Financial Statements
Years Ended June 30, 2011, 2010 and 2009

NOTE 8 - LONG-TERM DEBT (Continued)

	June 30, <u>2009</u>	<u>Additions</u>	<u>Payments</u>	June 30, <u>2010</u>	Due Within <u>One Year</u>
Series 2009 anticipation note	\$ 456,126	\$ -0-	\$ 456,126	\$ -0-	\$ -0-
Series 2007 bonds	284,000	-0-	16,000	268,000	16,000
Series 2003 bonds	670,000	-0-	155,000	515,000	165,000
Note payable - unsecured	25,170	-0-	10,147	15,023	11,097
Capital lease obligations	<u>381,288</u>	<u>226,998</u>	<u>167,568</u>	<u>440,718</u>	<u>187,789</u>
Total	\$ <u>1,816,584</u>	\$ <u>226,998</u>	\$ <u>804,841</u>	\$ <u>1,238,741</u>	\$ <u>379,886</u>

	June 30, <u>2008</u>	<u>Additions</u>	<u>Payments</u>	June 30, <u>2009</u>	Due Within <u>One Year</u>
Series 2009 anticipation note	\$ -0-	\$ 456,126	\$ -0-	\$ 456,126	\$ 456,126
Series 2008 anticipation note	295,000	300,000	595,000	-0-	-0-
Series 2007 bonds	300,000	-0-	16,000	284,000	16,000
Series 2003 bonds	820,000	-0-	150,000	670,000	155,000
Note payable - unsecured	34,445	-0-	9,275	25,170	10,147
Capital lease obligations	<u>529,619</u>	<u>45,403</u>	<u>193,734</u>	<u>381,288</u>	<u>157,731</u>
Total	\$ <u>1,979,064</u>	\$ <u>801,529</u>	\$ <u>964,009</u>	\$ <u>1,816,584</u>	\$ <u>795,004</u>

The following are the terms and due dates of the Hospital's long-term debt at June 30:

- Series 2010 Revenue Anticipation Notes, at an interest rate of 2.88%, due in one installment on March 1, 2011, secured by a pledge of tax and other revenues.
- Series 2009 Revenue Anticipation Notes, at an interest rate of 2.88%, due in one installment on June 1, 2010, secured by a pledge of tax and other revenues.
- Series 2008 Revenue Anticipation Notes, at an interest rate of 2.88%, due in one installment on June 1, 2009, secured by a pledge of tax and other revenues.
- Series 2007 Hospital Improvement Bonds, at a variable interest rate not to exceed 5.00%, due in variable semi-annual installments with full repayment at August 1, 2022, secured by a pledge of tax revenues.
- Series 2003 Certificate of Indebtedness, at a variable interest rate not to exceed 4.3%, due in variable annual installments with full repayment at March 1, 2013, secured by a pledge of tax revenues.
- Unsecured notes payable at 9.0%, due in monthly payments of \$1,000 with the first two payments including balloon payments of \$4,000 with the total due September 11, 2011.
- Capital leases at varying rates of imputed interest from .7% to 15.0%, with total monthly payments ranging from \$82 to \$8,878 until 2015, collateralized by leased equipment with a net book value of \$522,785 at June 30, 2011.

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
d/b/a Allen Parish Hospital
Hospital Enterprise Fund
Notes to Financial Statements
Years Ended June 30, 2011, 2010 and 2009

NOTE 8 - LONG-TERM DEBT (Continued)

Scheduled principal and interest payments on long-term debt and payments on capital obligations are as follows:

Year Ending June 30,	<u>Long-Term Debt</u>		<u>Capital Lease Obligation</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 191,924	\$ 24,762	\$ 158,037	\$ 27,604
2013	197,000	17,407	98,816	18,878
2014	17,000	9,267	99,806	11,404
2015	18,000	9,267	65,592	4,796
2016	19,000	7,972	37,269	1,209
2017 and thereafter	<u>164,000</u>	<u>28,561</u>	<u>-0-</u>	<u>-0-</u>
Totals	\$ <u>606,924</u>	\$ <u>97,236</u>	\$ <u>459,520</u>	\$ <u>63,891</u>

The assets and liabilities under capital leases are recorded at the fair value of the asset. The assets are depreciated over their estimated productive lives. Depreciation of assets under capital leases is included in depreciation expense.

NOTE 9 - RETIREMENT PLAN

On February 9, 2004, the Hospital elected to participate in the State of Louisiana's Public Employees Deferred Compensation Plan, which is a defined contribution plan. The plan was established in accordance with R.S. 42:1301-1308, and Section 457 of the *Internal Revenue Code of 1986*, as amended. At June 30, 2011, 2010 and 2009 there were 47, 47 and 43 plan members, respectively. Employees are eligible to participate in the plan beginning on the date of hire, with a minimum contribution of \$10 per month, up to 100% of compensation, for those under age 50 not to exceed \$16,500, \$16,500 and \$16,500 in 2009, 2010, and 2011, respectively, for those 50 or older \$21,500, \$22,000 and \$22,000 are the contribution limits for 2009, 2010 and 2011, respectively. The Hospital has elected to contribute 1% of the participating employees' pay. The Hospital holds all rights to change and/or stop its contribution at any time. Employees are immediately vested in employer and employee contributions. The Hospital's contribution was \$23,578, \$19,893 and \$20,112 for the years ended June 30, 2011, 2010 and 2009, respectively. Employees contributed \$103,411, \$83,567 and \$85,796 for the years ended June 30, 2011, 2010 and 2009, respectively.

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
d/b/a Allen Parish Hospital
Hospital Enterprise Fund
Notes to Financial Statements
Years Ended June 30, 2011, 2010 and 2009

NOTE 10 - PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows.

Medicare - Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The Hospital qualified for a Medicare low volume add-on for inpatient payments. These payments are effective for discharges occurring October 1, 2010 until September 30, 2012, if not extended by Congress. The additional payments received under the Medicare low volume add-on were \$159,266 for the year ended June 30, 2011. The rural health clinic is paid on a cost based methodology. Certain outpatient services related to Medicare beneficiaries are paid based on a set fee per diagnosis, with a hold harmless provision for partial cost reimbursement for some of these services until December 31, 2011. The additional payments received under the hold harmless provision were \$120,784, \$140,528 and \$127,601 for the years ended June 30, 2011, 2010 and 2009, respectively. Swing bed services are reimbursed based on a prospectively determined rate per patient day based on clinical, diagnostic, and other factors. Inpatient psychiatric services are reimbursed based upon a prospective methodology based upon length of stay, diagnosis, and other factors.

Medicaid - Inpatient acute and psychiatric services are reimbursed based on a prospectively determined per diem rate. Rural health clinics are paid on a cost based methodology. Some outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology, while others are paid prospectively based on a fee schedule. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary.

Commercial - The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. Payment methods under these agreements include prospectively determined rates per discharge, discounts from established charges, and prospectively determined per diem rates.

The following is a summary of the Hospital's net patient service revenue for the year ended June 30:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Gross patient service charges	\$ 21,903,412	\$ 21,498,870	\$ 20,375,534
Contractual allowances	(7,236,225)	(6,028,622)	(5,760,060)
Medicaid disproportionate share payments	-0-	-0-	17,824
Discounts	(155,303)	(194,763)	(239,298)
Free care	(95,681)	(74,735)	(65,347)
Provision for bad debts	<u>(2,809,430)</u>	<u>(2,660,113)</u>	<u>(3,190,388)</u>
Net patient service revenue	\$ <u>11,606,773</u>	\$ <u>12,540,637</u>	\$ <u>11,138,265</u>

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
d/b/a Allen Parish Hospital
Hospital Enterprise Fund
Notes to Financial Statements
Years Ended June 30, 2011, 2010 and 2009

NOTE 10 - PATIENT SERVICE REVENUE (Continued)

The Hospital generated a substantial portion of its charges from Medicare and Medicaid programs at discounted rates. The following is a summary of gross Medicare and Medicaid patient charges:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Medicare and Medicaid gross patient charges	\$ 14,299,117	\$ 13,976,855	\$ 12,716,790
Contractual adjustments	<u>(5,149,500)</u>	<u>(4,028,574)</u>	<u>(4,649,692)</u>
 Program patient service revenue without Medicaid UCC	 \$ <u>9,149,617</u>	 \$ <u>9,948,281</u>	 \$ <u>8,067,098</u>
 Percent of total gross patient charges	 <u>65%</u>	 <u>65%</u>	 <u>62%</u>
Percent of total net patient revenue	<u>79%</u>	<u>79%</u>	<u>72%</u>

The Hospital received interim amounts of \$-0-, \$421,264 and \$17,824 for Medicaid and self-pay uncompensated care services (UCC) for the years ended June 30, 2011, 2010 and 2009, respectively, which represents 0.0%, 3.4% and 0.2% of net patient service revenue, respectively. The interim payments received are based upon uncompensated cost incurred in previous years. Current regulations limit UCC to actual cost incurred by the Hospital in each state fiscal year. Any overpayments will be recouped by Medicaid after audit by Medicaid. Management estimated that the Hospital was overpaid by \$421,264 during fiscal year ended 2010, and has made provision for such recoupment. To the extent management's estimates differ from actual results, the differences will be used to adjust income for the period when differences arise. Future uncompensated cost payments are dependent upon state appropriations, which require annual approval by the state legislature.

NOTE 11 - PROFESSIONAL LIABILITY RISK

The Hospital participates in the Louisiana Patient's Compensation Fund established by the State of Louisiana to provide medical professional liability coverage to healthcare providers. The fund provides for \$400,000 in coverage per occurrence above the first \$100,000 per occurrence for which the Hospital is at risk. The fund places no limitation on the number of occurrences covered. In connection with the establishment of the Patient's Compensation Fund ("PCF"), the State of Louisiana enacted legislation limiting the amount of healthcare provider settlement for professional liability to \$100,000 per occurrence and limiting the PCF's exposure to \$400,000 per occurrence.

The Hospital has acquired additional coverage for professional medical malpractice liability through a private insurance carrier by purchasing a claims-made policy.

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
d/b/a Allen Parish Hospital
Hospital Enterprise Fund
Notes to Financial Statements
Years Ended June 30, 2011, 2010 and 2009

NOTE 12 - CONTINGENCIES

The Hospital evaluates contingencies based upon the best available evidence. The Hospital believes that no allowances for loss contingencies are considered necessary. To the extent that resolution of contingencies results in amounts which vary from the Hospital's estimates, future earnings will be charged or credited.

The principal contingencies are described below:

Governmental Third-Party Reimbursement Programs (Note 10) - The Hospital is contingently liable for retroactive adjustments made by the Medicare and Medicaid programs as the result of their examinations as well as retroactive changes in interpretations applying statutes, regulations and general instructions of those programs. The amount of such adjustments cannot be determined.

Further, in order to continue receiving reimbursement from the Medicare program, the Hospital entered into an agreement with a government agent allowing the agent access to the Hospital's Medicare patient medical records for purposes of making medical necessity and appropriate level of care determinations. The agent has the ability to deny reimbursement for Medicare patient claims which have already been paid to the Hospital.

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participating requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse statutes as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

Professional Liability Risk (Note 11) - The Hospital is contingently liable for losses from professional liability not underwritten by the Louisiana Patient's Compensation Fund.

Litigation and Other Matters - Various claims in the ordinary course of business are pending against the Hospital. In the opinion of management and counsel, insurance is sufficient to cover adverse legal determinations in those cases where a liability can be measured.

NOTE 13 - AD VALOREM TAXES

The Hospital levies two property taxes on all property subject to taxation in the service district. The three mills tax was imposed for ten years, beginning with the year 2007 and ending with the year 2016. The twelve mills tax runs for a period of ten years, beginning with the year 2003 and ending with the year 2012, to be dedicated and used for operating, maintaining, renovating and improving emergency medical services. Property taxes are collected through the local sheriff's office and remitted, net of collection fees, to the Hospital. Property tax notices are mailed by November 5 each year and are due by December 31. The lien date is January 31.

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
d/b/a Allen Parish Hospital
Hospital Enterprise Fund
Notes to Financial Statements
Years Ended June 30, 2011, 2010 and 2009

NOTE 14 - CHARITY CARE

The amount of charges forgone for services and supplies furnished under the Hospital's charity care policy aggregated approximately \$67,116, \$74,735 and \$65,347, in 2011, 2010 and 2009, respectively. The costs related to the charity care charges are \$37,963, \$43,013 and \$39,811, in 2011, 2010 and 2009, respectively.

NOTE 15 - SUBSEQUENT EVENTS

In July 2010, the Hospital went before the State Bond Commission and received approval of \$430,000 in Revenue Anticipation Bonds. The Hospital has withdrawn \$400,000 of these bonds. Events have been evaluated through December 9, 2011, for subsequent event disclosure.

SUPPLEMENTARY INFORMATION

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
d/b/a Allen Parish Hospital
Hospital Enterprise Fund
Schedules of Net Patient Service Revenue
Years Ended June 30,

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Routine services			
Adult and pediatric	\$ 253,950	\$ 294,050	\$ 296,125
Psychiatric	6,562,467	6,304,482	5,552,944
Swing bed	<u>156,750</u>	<u>140,500</u>	<u>143,250</u>
 Total routine services	 <u>6,973,167</u>	 <u>6,739,032</u>	 <u>5,992,319</u>
Other professional services			
Operating room	62,834	105,931	122,558
Radiology	3,342,528	3,237,583	3,593,990
Nuclear medicine	235,779	232,887	177,826
Laboratory	2,788,773	2,589,149	2,401,883
Blood	35,305	37,415	45,210
Intravenous therapy	216,436	200,821	102,809
Respiratory therapy	340,334	403,894	302,761
Physical therapy	802,987	769,731	739,606
Electrocardiology	354,800	353,622	276,880
Central supply	444,824	434,988	449,557
Pharmacy	2,020,236	1,805,753	1,405,231
Observation room	116,215	65,185	49,232
Physician clinic	294,684	349,884	329,916
Rural health clinic	714,573	1,034,034	969,250
Emergency room	2,519,839	2,469,556	2,808,680
Home health visits	542,230	530,990	495,320
Contract physician	<u>97,868</u>	<u>138,415</u>	<u>112,506</u>
 Total other professional services	 <u>14,930,245</u>	 <u>14,759,838</u>	 <u>14,383,215</u>
 Gross patient service revenue	 <u>21,903,412</u>	 <u>21,498,870</u>	 <u>20,375,534</u>
Contractual allowances	7,236,225	6,028,622	5,760,060
Medicaid disproportionate share payments	-0-	-0-	(17,824)
Discounts	155,303	194,763	239,298
Free care	95,681	74,735	65,347
Provision for bad debts	<u>2,809,430</u>	<u>2,660,113</u>	<u>3,190,388</u>
 Total deductions from revenue	 <u>10,296,639</u>	 <u>8,958,233</u>	 <u>9,237,269</u>
 Net patient service revenue	 <u>\$ 11,606,773</u>	 <u>\$ 12,540,637</u>	 <u>\$ 11,138,265</u>

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
d/b/a Allen Parish Hospital
Hospital Enterprise Fund
Schedules of Other Operating Revenue
Years Ended June 30,

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Meals	\$ 23,000	\$ 22,284	\$ 25,021
Medical records transcript fees	3,436	5,737	4,729
Rental	6,900	1,950	4,225
Other income	<u>57,766</u>	<u>67,431</u>	<u>29,625</u>
 Total other operating revenue	 \$ <u>91,102</u>	 \$ <u>97,402</u>	 \$ <u>63,600</u>

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
d/b/a Allen Parish Hospital
Hospital Enterprise Fund
Schedules of Operating Expenses - Salaries and Benefits
Years Ended June 30,

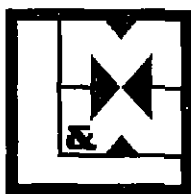
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Administration	\$ 475,775	\$ 444,045	\$ 508,756
Plant operations and maintenance	134,794	134,476	128,337
Housekeeping	99,442	99,447	100,987
Dietary and cafeteria	149,446	152,681	150,155
Medical records	95,657	98,303	91,647
Nursing services, acute care	805,305	836,399	826,218
Psychiatric unit	1,481,633	1,394,634	1,138,113
Operating room	1,156	4,189	3,431
Radiology	301,578	287,673	307,799
Laboratory	328,083	310,689	296,191
Respiratory therapy	142,488	146,129	153,358
Central supply	25,222	26,781	29,689
Pharmacy	157,994	145,962	136,894
Emergency room	555,418	535,203	582,681
Home health	248,808	237,856	233,211
Physician clinic	213,687	220,363	208,137
Rural health clinic	<u>625,124</u>	<u>765,797</u>	<u>818,547</u>
 Total salaries	 <u>5,841,610</u>	 <u>5,840,627</u>	 <u>5,714,151</u>
 Payroll taxes	 407,106	 407,051	 405,829
Health insurance	463,844	396,743	350,964
Retirement	23,578	19,893	20,112
Other	<u>5,354</u>	<u>5,277</u>	<u>4,499</u>
 Total benefits	 <u>899,882</u>	 <u>828,964</u>	 <u>781,404</u>
 Total salaries and benefits	 \$ <u>6,741,492</u>	 \$ <u>6,669,591</u>	 \$ <u>6,495,555</u>

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
d/b/a Allen Parish Hospital
Hospital Enterprise Fund
Schedules of Operating Expenses - Other Expenses
Years Ended June 30,

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Legal and accounting	\$ 73,973	\$ 82,254	\$ 83,075
Repairs and maintenance	227,697	213,226	229,710
Telephone	62,480	70,469	74,999
Utilities	171,890	162,304	189,019
Travel	82,001	70,125	71,904
Rentals	70,776	70,814	98,733
Dues and subscriptions	60,730	56,269	33,239
Physician recruitment	-0-	27,620	2,182
Miscellaneous	<u>69,510</u>	<u>59,586</u>	<u>45,531</u>
 Total other expenses	 \$ <u>819,057</u>	 \$ <u>812,667</u>	 \$ <u>828,392</u>

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
d/b/a Allen Parish Hospital
Hospital Enterprise Fund
Schedules of Per Diem and
Other Compensation Paid to Board Members
Years Ended June 30,

	<u>2011</u>		<u>2010</u>		<u>2009</u>
Dr. Peggy Allemand	\$ 440	\$	400	\$	480
Ms. Carla Marcantel	450		600		600
Mr. Richard Hollier	360		440		360
Mr. Ronald Craiger	500		550		500
Mr. Jessie Chaffin	440		400		480
Mr. Royce Scimemi	360		440		320
Mr. Joe Green	320		320		200
Ms. Barbara Lee	<u>-0-</u>		<u>-0-</u>		<u>80</u>
 Total	 \$ <u>2,870</u>	\$	 <u>3,150</u>	\$	 <u>3,020</u>



LESTER, MILLER & WELLS

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Commissioners
Hospital Service District No. 3
Parish of Allen, State of Louisiana
Kinder, Louisiana

We have audited the financial statements of Hospital Service District No. 3, Parish of Allen, a component unit of the Allen Parish Police Jury, ("Allen Parish Hospital") as of and for the years ended June 30, 2011, 2010 and 2009, and have issued our report thereon dated December 9, 2011. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Allen Parish Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Allen Parish Hospital's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings that we consider to be significant deficiencies in internal control over financial reporting: 2011-01 and 2011-02. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Board of Commissioners
Hospital Service District No. 3
Parish of Allen, State of Louisiana
Kinder, Louisiana
Page Two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Allen Parish Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which would have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Board of Commissioners, and the Office of the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties.

Lester, Miller & Wells

Certified Public Accountants

Alexandria, Louisiana
December 9, 2011



Allen Parish Hospital
Schedule of Findings and Responses
Year Ended June 30, 2011

Section I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: unqualified

Internal control over financial reporting:

- Material weaknesses identified – No
- Significant deficiencies identified – Yes

Compliance:

- Noncompliance issues noted – No

Management letter issued – No

Federal Awards – Not applicable

Section II. Financial Statement Findings

FINDING 2011-1 - Financial Statements

Finding: In the past, the auditors were able to draft the financial statements with management accepting responsibility. Effective for financial statements ending on or after December 15, 2006, SAS 112 now requires management to insure propriety and completeness of the financial statements and related footnotes. The staff responsible for preparation of financial statements and related footnote disclosures in accordance with generally accepted accounting principles (GAAP) lacks the knowledge and/or resources necessary internally to complete the reporting requirements.

Recommendation: Management should either (a) obtain the knowledge and/or resources necessary to internally prepare or review the auditors' preparation of the Hospital's financial statements and related footnote disclosures in accordance with GAAP, or (b) determine if the cost overrides the benefit of correcting this control deficiency.

Response: Our goal will be to obtain the knowledge necessary to internally prepare or review the auditors' preparation of the Hospital's financial statements and related footnote disclosures in accordance with GAAP.

FINDING 2011-2 - Segregation of Duties

Finding: Due to a limited number of available employees, there is not a complete segregation of duties in all accounting, recording and custody functions.

Recommendation: We recommend that duties be segregated to the extent possible to prevent both intentional and unintentional errors. Segregation includes 1) separating transaction authorization from custody of related assets; 2) separating transaction recording from general ledger posting and maintenance; 3) separating operations responsibility from record-keeping. Where these segregations are not possible, we recommend close supervision and review.



Allen Parish Hospital
Schedule of Findings and Responses
Year Ended June 30, 2011

Section II. Financial Statement Findings (Continued)

FINDING 2011-2 - Segregation of Duties (Continued)

Response: We will work to have the staff and the knowledge to segregate duties so that internal controls can be in place to prevent intentional and unintentional errors.



Allen Parish Hospital
Schedule of Prior Year Findings and Responses
Year Ended June 30, 2011

Section I. Financial Statement Findings

2010-1 - Contractual Allowances

Fiscal Year Initially Reported: June 30, 2008

Finding: The District overstated accounts receivable and income when estimating its allowances for bad debts and contractual adjustments from third-party payors.

Recommendation: We recommend reviewing the methodology for estimating allowances for receivables on a quarterly basis to determine the appropriateness and accuracy of the computation.

Response: We have reviewed the methodology of estimating contractual allowances and have made appropriate adjustments. The methodology will be reviewed on a quarterly basis.

Resolution: This matter has been resolved.

2010-2 - Financial Statements

Fiscal Year Initially Reported: June 30, 2007

Finding: In the past, the auditors were able to draft the financial statements with management accepting responsibility. Effective for financial statements ending on or after December 15, 2006, SAS 112 now requires management to insure propriety and completeness of the financial statements and related footnotes. The staff responsible for preparation of financial statements and related footnote disclosures in accordance with generally accepted accounting principles (GAAP) lacks the knowledge and/or resources necessary internally to complete the reporting requirements.

Recommendation: Management should either (a) obtain the knowledge and/or resources necessary to internally prepare or review the auditors' preparation of the Hospital's financial statements and related footnote disclosures in accordance with GAAP, or (b) determine if the cost overrides the benefit of correcting this control deficiency.

Response: Our goal will be to obtain the knowledge necessary to internally prepare or review the auditors' preparation of the Hospital's financial statements and related footnote disclosures in accordance with GAAP.

Resolution: This matter has not been resolved. See current year finding 2011-1.

2010-3 - Segregation of Duties

Fiscal Year Initially Reported: June 30, 2007

Finding: Due to a limited number of available employees, there is not a complete segregation of duties in all accounting, recording and custody functions.



Allen Parish Hospital
Schedule of Prior Year Findings and Responses
Year Ended June 30, 2011

Section I. Financial Statement Finding (Continued)

2010-3 - Segregation of Duties (Continued)

Recommendation: We recommend that duties be segregated to the extent possible to prevent both intentional and unintentional errors. Segregation includes 1) separating transaction authorization from custody of related assets; 2) separating transaction recording from general ledger posting and maintenance; 3) separating operations responsibility from record-keeping. Where these segregations are not possible, we recommend close supervision and review.

Response: We will work to have the staff and the knowledge to segregate duties so that internal controls can be in place to prevent intentional and unintentional errors.

Resolution: This matter has not been resolved. See current year finding 2011-2.

2010-4 - Reconciliation of Cash

Fiscal Year Initially Reported: June 30, 2005

Finding: The general checking account bank reconciliation contained unreconciled differences. These differences were related to the posting of the physician clinic's accounts receivable.

Recommendation: We recommend reviewing the daily posting of the clinic's deposits and setting up procedures to prevent unreconciled differences.

Response: Management will put procedures in place to insure account balances and cash are correct.

Resolution: This matter has been resolved.

